

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 NEA-10 IO-13 AID-05 CIAE-00

COME-00 EB-07 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 L-03 H-02 PRS-01 PA-01 AGR-05

ITC-01 /111 W

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P R 120848Z JUL 76

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 7320

INFO AMEMBASSY SUVA UNN

AMEMBASSY WELLINGTON

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 10/12/76

TAGS: EAID, EFIN

SUBJECT: PROPOSED ADB TECHNICAL ASSISTANCE TO TONGA FOR
DEVELOPMENT AND FINANCE CORPORATION PROJECT

SUMMARY: ADB MANAGEMENT PROPOSES \$240,000 EQUIVALENT
TECHNICAL ASSISTANCE (TA) GRANT TO KINGDOM OF TONGA TO
FINANCE FOREX COST OF ASSISTING GOVERNMENT IN SETTING UP
AND ORGANIZING A MULTI-PURPOSE DEVELOPMENT FINANCE
INSTITUTION AND TO GIVE IT GUIDANCE DURING ITS INITIAL
OPERATIONS. PROPOSED TA, WHICH WOULD BE OF AN INSTITUTION-
BUILDING AND ADVISORY NATURE, IS EXPECTED TO HAVE SIGNIFICANT
IMPACT ON ECONOMY AND DEVELOPMENT EFFORTS OF TONGA. USADB
RECOMMENDS FAVORABLE NAC ACTION. END SUMMARY.

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1. ADB DOC. R73-76 DESCRIBING PROPOSED GRANT POUCHED

ADDRESSEES JULY 6. BOARD CONSIDERATION SCHEDULED JULY 22.

2. ADB MANAGEMENT PROPOSED \$240,000 TA GRANT TO KINGDOM OF TONGA. PROCEEDS WILL FINANCE FOREX COST OF PROVIDING SERVICES OF TWO EXPATRIATE EXPERTS TO ASSIST GOVERNMENT IN ESTABLISHING PROPOSED DEVELOPMENT AND FINANCE CORPORATION (DFC). PROPOSED TA WOULD ALSO PROVIDE FOR MANAGEMENT EXPERTISE FOR DFC IN ITS INITIAL PERIOD OF OPERATION, TRAINING OF STAFF AND DEVELOPMENT OF DFC INTO SOUND INSTITUTION.

3. ECONOMY OF TONGA IS AT EARLY STAGE OF DEVELOPMENT, WITH PER CAPITA GNP ESTIMATED AT US\$240 FOR 1974. TONGA HAS LIMITED NATURAL RESOURCES. NO MINERALS HAVE BEEN DISCOVERED; NO HYDROPOWER POSSIBILITIES EXIST; AND FOREST RESOURCES ARE MINIMAL. ECONOMY IS HEAVILY DEPENDENT ON COPRA AND BANANAS, WHICH TOGETHER COMPRISE ABOUT THREE-FOURTHS OF KINGDOM'S EXPORTS. ABOUT 70 PERCENT OF LABOR FORCE IS EMPLOYED IN AGRICULTURAL SECTOR. DOMESTIC MARKET IS LIMITED AND THERE IS SHORTAGE OF ADMINISTRATIVE AND TECHNICAL SKILLS.

4. TONGA'S BALANCE OF PAYMENTS, WHICH IS BASICALLY WEAK IN VIEW LARGE AND GROWING TRADE GAP, HAS BEEN SUPPORTED BY PRIVATE REMITTANCES FROM TONGANS ABROAD. WHILE OUTSTANDING EXTERNAL PUBLIC DEBT AND DEBT-SERVICE RATIO ARE LOW, THEY ARE LIKELY TO INCREASE UNDER THIRD FIVE-YEAR DEVELOPMENT PLAN (1975/76-1979/80), WHICH ENVISAGES SUBSTANTIAL INCREASE IN EXPENDITURES FOR DEVELOPMENT, WITH PRIORITY BEING ACCORDED TO AGRICULTURE, MANUFACTURING, TOURISM AND ELECTRIC POWER. MAJOR PART OF TOTAL FINANCING IS EXPECTED TO COME FROM FOREIGN SOURCES. (NEW ZEALAND, UNITED KINGDOM, AUSTRALIA AND LATELY EUROPEAN DEVELOPMENT FUND ARE MAIN SOURCES OF ASSISTANCE.)

5. PRIOR TO ESTABLISHMENT OF BANK OF TONGA IN JULY 1974, KINGDOM'S FINANCIAL SERVICES WERE CARRIED OUT BY TREASURY DEPARTMENT INTERNALLY WHICH ALSO PERFORMS CENTRAL BANK FUNCTIONS, AND EXTERNALLY BY FOREIGN BANKS, MAINLY IN FIJI AND NEW ZEALAND. ALTHOUGH EMPOWERED TO CARRY OUT DEVELOPMENT BANKING FUNCTIONS, BANK OF TONGA IN PRACTICE RESTRICTS LIMITED OFFICIAL USE

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INTSELF TO COMMERCIAL BANKING OPERATIONS. GOVERNMENT OF TONGA HOLDS 40 PERCENT OF ITS SHARES, WHILE BANK OF NEW SOUTH WALES, SYDNEY, BANK OF NEW ZEALAND, WELLINGTON, AND BANK OF HAWAII, HONOLULU, EACH HOLD 20 PERCENT. BANK OF NEW SOUTH WALES PROVIDES GENERAL MANAGER ON SECONDMENT, AND TWO OTHER FOREIGN SHAREHOLDERS HAVE MADE AVAILABLE ONE EXPATRIATE OFFICER EACH.

6. ALTHOUGH TONGA HAS RELATIVELY SMALL POPULATION OF ABOUT 100,000 INHABITANTS, IT HAS GOOD BASIC EDUCATION SYSTEM, WITH PRIMARY AND SECONDARY SCHOOLS OF GOVERNMENT AND CHURCHES GOING BACK TO 100 YEARS. IT HAS SMALL CORE OF FAIRLY DYNAMIC AND ENTERPRISING MAINLY INDIGENOUS ENTREPRENEURS.

7. CURRENT FIVE-YEAR DEVELOPMENT PLAN PROVIDES FOR AVERAGE ANNUAL GROWTH IN GDP OF 5.6 PERCENT, WHICH WILL REQUIRE CONSIDERABLE EXPANSION AND DIVERSIFICATION OF PRODUCTIVE SECTORS OF ECONOMY AND DEVELOPING TOURIST INDUSTRY. BANK MISSION CONCLUDES THERE IS SCOPE FOR A DEVELOPMENT FINANCE INSTITUTION TO ACCOMMODATE TWO TYPES OF AGRICULTURAL BORROWERS: (A) SMALL FARMERS AND FISHERMEN REQUIRING SMALL LOANS MAINLY FOR CROPPING AND FISHERIES; AND (B) COMMERCIAL FARMERS WHOSE PROJECTS CAN ALSO SERVE AS PILOT PROJECTS. INITIALLY, DEMAND FROM MANUFACTURING AND COMMERCIAL SECTOR (ALMOST EXCLUSIVELY FOR IMPORT - SUBSTITUTION PURPOSES) IS EXPECTED TO COME FROM SMALL, BUT ENTERPRISING GROUP OF ABOUT 30-40 SMALL ENTREPRENEURS INCLUDING 3-4 WELL ESTABLISHED, LOCAL-OWNED TRADING FIRMS, MOST WITH SOUND CAPITAL BASIS AND ALREADY ENGAGED IN MANUFACTURING.

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INFO OCT-01 EA-07 ISO-00 NEA-10 IO-13 AID-05 CIAE-00

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P R 120848Z JUL 76

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 7321

INFO AMEMBASSY SUVA UNN

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8. INSTITUTION WHICH PROPOSED TA WILL HELP ESTABLISH HAS BEEN CONCEIVED ON MULTI-PURPOSE BASIS IN ORDER TO SUSTAIN ITS OPERATIONAL AND FINANCIAL VIABILITY AND TO ACHIEVE OPTIMAL IMPACT ON TONGA'S ECONOMY. IN THIS WIDER ROLE FOR DFC, WHICH IS NOT INTENDED TO DETRACT FROM MAIN FUNCTION OF FINANCING, IT IS ENVISAGED THAT INSTITUTION WOULD PROVIDE CLOSE LINK TO DEVELOPMENT OF AN ESTATE FOR SMALL INDUSTRIES; ADVISE ON FORMATION OF FEW BASIC INDUSTRIES; CARRY OUT BUSINESS PROMOTION SERVICES, AND FUNCTION AS CHANNEL FOR AID FROM BILATERAL SOURCES FOR FEW LARGE DEVELOPMENT PROJECTS.

9. PROPOSED TA PROJECT IS COMPOSED OF TWO PHASES:

(A) IN FIRST PHASE, SERVICES OF SENIOR DEVELOPMENT BANKER WILL BE PROVIDED FOR SIX-MONTH PERIOD TO HELP ESTABLISH LIMITED OFFICIAL USE

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DFC. HE WILL HELP PREPARE DRAFT ORDINANCE FOR FORMAL LEGISLATION; WORK OUT ARRANGEMENTS WITH OTHER RELEVANT GOVERNMENT BODIES; HELP RECRUIT STAFF INCLUDING TWO COUNTERPARTS TO TWO EXPATRIATE CONSULTANTS; INTRODUCE ACCOUNTING SYSTEM; AND START PREPARING BANKING REGULATIONS AND LOAN PROCESSING PROCEDURES. (B) IN SECOND PHASE, ABOVE-MENTIONED SENIOR DEVELOPMENT BANKER WILL ASSUME, FOR 18 MONTHS, POSITION AND FUNCTION OF DFC'S GENERAL MANAGER OF INDUSTRIAL LOANS AND PROMOTION DIVISION. SECOND CONSULTANT, AN AGRICULTURAL CREDIT SPECIALIST, WILL BE BROUGHT IN FOR SAME 18-MONTH PERIOD TO ACT AS MANAGER OF AGRICULTURAL LOANS DIVISION; TRAIN STAFF IN THIS DIVISION AS WELL AS AGRICULTURAL EXTENSION OFFICERS OF GOVERNMENT; PREPARE RULES AND REGULATIONS FOR AGRICULTURAL CREDIT OPERATIONS, ETC. IF SENIOR DEVELOPMENT ADVISOR IS APPOINTED FOR FIRST PHASE BY OCTOBER 1976, IT IS ESTIMATED BOTH PHASES WOULD BE COMPLETED BY OCTOBER 1978.

10. TOTAL COST OF PROPOSED TA IS ESTIMATED AT \$290,000, OF WHICH \$240,000 IS FOREX COST TO BE FINANCED UNDER PROPOSED GRANT AND \$50,000 IS LOCAL CURRENCY COST. FOREX COST ESTIMATE ASSUMES THAT SERVICES OF INDIVIDUAL CONSULTANTS (NOT CONSULTING FIRM) WOULD BE UTILIZED. IN THIS RESPECT, BANK WILL MAKE EFFORTS TO TAP PERSONNEL RESOURCES OF SUITABLE DEVELOPMENT FINANCING INSTITUTIONS

IN REGION TO MAKE AVAILABLE ONE OR BOTH OF REQUIRED EXPERTS. LOCAL CURRENCY COST FOR OFFICE SPACE, FURNITURE AND EQUIPMENT, VEHICLES, OFFICE SUPPLIES, ETC. WILL BE PROVIDED BY GOVERNMENT AS EQUITY TO CORPORATION, WHILE COSTS FOR INTERNAL TRAVEL, SECRETARIAL FACILITIES TOGETHER WITH ADMINISTRATIVE COSTS ARE FOR ACCOUNT OF CORPORATION, HOWEVER, TO BE REIMBURSED TO CORPORATION BY GOVERNMENT DURING PERIOD PRIOR TO ITS ESTABLISHMENT AND SIX MONTHS THEREAFTER. PROPOSED TA IS EXPECTED TO LEAD TO SUBSEQUENT REQUEST BY GOVERNMENT FOR BANK LOAN TO DFC.

11. MAJOR OBJECTIVE OF PROPOSED TA PROGRAM IS TO MAKE MANAGEMENT OF DFC PROFESSIONALLY AND ADMINISTRATIVELY SELF SUFFICIENT IN REASONABLE PERIOD OF TIME. IT WILL BE FOURTH DEVELOPMENT FINANCE INSTITUTION IN SOUTH PACIFIC LIMITED OFFICIAL USE

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FOR WHICH BANK WILL BE INVOLVED IN INSTITUTION BUILDING PROCESS. OTHERS ARE IN FIJI (STARTING 1970), WESTERN SAMOA (STARTING 1973) AND SOLOMON ISLANDS (1976). HOWEVER, IN TONGA, BANK WILL BE INVOLVED IN SETTING UP DEVELOPMENT FINANCE ENTITY FROM VERY BEGINNING. BANK MANAGEMENT CONSIDERS SUCH A MULTI-PURPOSE INSTITUTION TO BE CONSISTENT WITH BANK'S SPECIAL POLICY GUIDELINES FOR OPERATIONS IN ITS MEMBER COUNTRIES IN SOUTH PACIFIC, PARTICULARLY GUIDELINES CONCERNING ESTABLISHMENT AND STRENGTHENING OF NATIONAL DEVELOPMENT BANKS. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

12. REQUEST SUVA COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795, DATED 3 JULY 1972. SULLIVAN

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